

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2019/2020

BAC2674 – TAXATION I

(All Sections/Groups)

13th JUNE 2020
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 11 pages with 5 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Miss Rukiyo is a Japanese IT security specialist who had signed a four-year employment contract with a private university in Cyberjaya, Malaysia. She officially began her work as a lecturer on 1st June 2015 and left Malaysia on 31st May 2019.

The following table details her periods of stay in Malaysia throughout her contract period.

| Year | Periods of stay in Malaysia | Remarks |
|------|---|--|
| 2015 | 16 th May – 30 th September | Miss Rukiyo arrived in Kuala Lumpur International Airport (KLIA) on 16 th May 2015 and spent two weeks to get settled in Cyberjaya. |
| | 11 th November – 31 st December | |
| 2016 | 1 st January – 31 st March | She was in Tokyo on 24 th December 2016 until 6 th January 2017 to visit her family. |
| | 1 st May – 14 th July | |
| | 24 th October – 23 rd December | |
| 2017 | 7 th January – 20 th April | |
| | 17 th July – 30 th September | |
| 2018 | 1 st January – 8 th March | She accompanied her students to a global IT education symposium in Rio De Janeiro from 9 th March 2018 until 15 th March 2018. |
| | 16 th March – 12 th June | |
| 2019 | 4 th March – 27 th April | She went for a holiday in Langkawi Island from 28 th April 2019 until 6 th May 2019. |
| | 7 th May – 31 st May | |

Required:

- i. Explain whether Miss Rukiyo's income from her employment with the private university is assessable in Malaysia.
(2 marks)
- ii. Determine the residence status of Miss Rukiyo for the Years of Assessment 2015 until 2019. Support your answers by referring to relevant sections in the Income Tax Act 1967.
(16 marks)
- iii. Explain the benefits that Miss Rukiyo would have had enjoyed should she be a tax resident during any year(s) of her stay in Malaysia.
(2 marks)

(Total: 20 marks)

Continued

QUESTION 2**Part A**

Sabbarica Earthenware Design (SED) is a business owned by Mr. Sabar and operates in Jasin, Melaka. It uses wet clay to shape into earthenware, which are then left to dry in a storeroom before being hardened in a hot oven. The earthenware are later polished and decorated with organic paints.

SED sells its earthenware merchandises locally as well as in export market. It also takes in bulk orders from walk-in customers.

SED closes its accounts on 30th June every year. During the financial year 2019, SED had performed the following transactions in relation to its non-current assets.

- i. General machinery
SED had acquired a new general machinery for RM71,000 on 12th July 2018. The machinery required SED to spend another RM2,400 for its installation. The machinery was fit for use on 1st August 2018.
- ii. Air-conditioners
SED had purchased three new units of air-conditioner to be installed in its management office. Each unit was priced at RM1,900. The units were installed and put to use on 1st March 2019.
- iii. Factory building
SED owns a small factory building which it built and put to use in the Year of Assessment (YA) 2017 for RM145,000. At the end of YA2018, the factory had recorded a residual expenditure of RM121,800. In April 2019, SED had repainted the whole factory building for RM3,100.
- iv. Storeroom
SED, in October 2018, had constructed a storeroom next to its factory building to keep the drying earthenware before they are hardened in the hot oven. The costs incurred for the construction were RM15,000 in the year 2018 and another RM18,000 in the year 2019. The storeroom was completed and put to use in February 2019.

Required:

Calculate the capital allowance and industrial building allowance that Sabbarica Earthenware Design (SED) could claim for each of the above assets in YA2019.

(11 marks)

Continued

Part B

Green Green Grass is a 200-acre vegetable farm in Cameron Highland, Pahang. It is owned and operated by Mr. Tey from the year 1999.

In the Year of Assessment 2019, Mr. Tey had sold off three acres of the farm's land to ease the business' cash flow problem. He received RM750,000 in cash from the sale. No farm land had ever been disposed before this by Mr. Tey.

Required:

Explain, using the badges of trade acid test, the nature of the above transaction. Explain as well whether the cash receipt of RM750,000 from the sale of land would be assessable to income tax.

(9 marks)

(Total: 20 marks)

QUESTION 3

Tata Groceries Sales and Services (TGSS) is owned by Mr. Tata Singh. The business involves selling and delivering groceries to its customers around the Alor Gajah District area. It closes its accounts annually on 31st December.

TGSS' statement of profit and loss for its financial year ended 31st December 2019 is as follows:

| | Note | RM | RM |
|-----------------------------------|------|----------------|------------------|
| Revenue | | | 422,000 |
| Less: Cost of sales | i | | <u>(208,000)</u> |
| Gross profit | | | 214,000 |
| Add: Other income | ii | | <u>46,000</u> |
| | | | 260,000 |
| Less: Expenses | | | |
| Selling and distribution expenses | iii | 33,700 | |
| Administration expenses | iv | <u>109,500</u> | <u>(143,200)</u> |
| Profit before tax | | | <u>116,800</u> |

Notes:

- i. Cost of sales includes the following:
- Depreciation of equipment RM39,000
 - Allowance for inventory obsolescence 18,700
 - Cost of fuel for deliveries of groceries 14,000
 - Discounts for customers 6,200

Continued

- ii. Other income is comprised of:
- | | |
|--|----------|
| • Rental income from a small warehouse in Jasin | RM43,500 |
| • Interest income from a fixed deposit account | 1,250 |
| • Single-tier exempt dividend income from AXT Bhd. | 1,250 |
- iii. Selling and distribution expenses include:
- | | |
|--|---------|
| • Allowance for doubtful debts | RM4,700 |
| • Repairs and maintenance of shop's storeroom | 8,000 |
| • Upgrading of shop's security system | 5,300 |
| • Traffic and parking summons | 900 |
| • Interests on trade-related note payables | 200 |
| • Motor vehicle insurance premium for delivery lorries | 12,000 |
- iv. Administration expenses consist of:
- | | |
|---|----------|
| • Salaries and wages | RM54,000 |
| • Salaries for a disabled administration clerk | 18,000 |
| • EPF contribution for employees | 9,360 |
| • Audit fee | 1,650 |
| • Penalty for late tax filing | 1,250 |
| • Repair and maintenance of rental warehouse | 2,550 |
| • Cash donation to approved charitable institutions | 1,050 |
| • Contribution of books to the district's public library | 2,000 |
| • Travelling expenses for Mr. Tata to attend an urgent meeting in Sabah | 6,540 |
| • Life insurance premium for Mr. Tata's wife | 3,500 |
| • Hari Raya celebration and duit raya for employees | 9,000 |
| • Loss due to cashier's theft | 600 |

Other information:

- i. Capital allowances for the Year of Assessment (YA) 2019 was RM29,100. There was also unutilised balance of capital allowances from YA2018 amounting to RM8,700.
- ii. The balancing allowance and balancing charge for YA2019 were RM3,850 and RM920 respectively.
- iii. TGSS also had an unabsorbed business loss from YA2017 amounting to RM4,850.

Required:

Calculate the chargeable income of Tata Groceries Sales and Services (TGSS) for YA2019.

Note: Your computation should start with the 'profit before taxation' figure and follow the descriptions used in the notes to the income statement. Indicate 'nil' in the appropriate

Continued

column for any item that does not require adjustment. You do not need to explain the adjustments made.

(20 marks)

QUESTION 4

Madam Siew May has never left Malaysia in her entire life. After thirty years of marriage, her husband passed away in July 2019, leaving her to care for their two children. Her twenty-three-year-old son is undergoing practical training in KPMG as part of his undergraduate programme. Her daughter meanwhile is preparing to sit for Sijil Pelajaran Malaysia examination.

Madam Siew May has been a registered physiotherapist in a private hospital in Kuala Lumpur for the past twenty-five years. The details of her income and expenditure for the year 2019 are as follows:

Employment Income and Benefits

- i. A gross salary of RM8,000 per month.
- ii. 11% of her monthly salary had been deducted for Employees' Provident Fund (EPF) contribution.
- iii. RM20 of her gross salary had been deducted for SOCSO contribution every month.
- iv. A bonus of two-month salary where 11% of the amount had been deducted for EPF contribution.
- v. A gold chain worth RM1,999 as a long service award was presented to her during the year's Staff Appreciation Dinner.
- vi. One local leave passage for herself and her children. The accommodation and meal had cost the hospital RM2,500 and RM1,000 respectively.
- vii. On 1st July 2019, the hospital had provided her a new car worth RM45,000. The hospital also provided fuel totalling RM1,800 for the year.
- viii. The hospital had made a payment of RM550 for her annual membership fee of the Malaysian Physiotherapy Association.
- ix. She was given an apartment in Kuala Lumpur that the hospital had rented for RM5,000 per month. The apartment was semi-furnished with air-conditioners in every room. The furniture had been valued at RM450 per month and this value was included in the monthly rental amount.

Continued

Other income

- i. Interest of RM2,240 was derived from her fixed deposit account in Singapore. The amount was transferred to her CIMB bank account in Malaysia in August 2019.
- ii. Single-tier dividend of RM850 from a listed company in Malaysia was credited into her CIMB bank account in December 2019.

Expenditure

- i. Purchase of laptop worth RM1,999 for daughter.
- ii. University's tuition fees of RM3,500 for her son.
- iii. Purchase of sports equipment for RM300.
- iv. Monthly broadband subscription under her name of RM100 for the whole year.
- v. Life insurance premium of RM4,000 and medical insurance premium of RM1,000. The medical insurance covered herself and her children.
- vi. Medical examination package of RM2,800 for herself and her children.
- vii. Donation of RM380 in cash to an approved orphanage. A donation of RM250 in food items to her apartment's Joint Management Body fund to aid those affected by flood in Johor.

Required:

Compute Madam Siew May's income tax payable for the Year of Assessment 2019. Show **ALL** relevant workings. Write down your answer for **income tax payable** to the nearest TWO (2) decimal points.

Note: You should indicate by the use of word "nil" for any item referred to in the question which no adjusting entry needs to be made or no reliefs or rebates to be given in the tax computation.

(Total: 20 marks)

QUESTION 5

Ashok, Bryan, and Mahmud are partners of ABM and Co. and have been carrying the business of providing accounting, auditing, and tax services for the past fifteen years.

Continued

The partnership agreement states the following details:

| Partner | Ashok | Bryan | Mahmud |
|--|-----------|-----------|-----------|
| Profit sharing ratio | 45% | 30% | 25% |
| Capital contribution | RM175,000 | RM125,000 | RM100,000 |
| Interest per annum on capital contribution | 5% | 5% | 5% |
| Monthly salary | RM6,000 | RM6,000 | RM6,000 |

The partnership's statement of profit and loss for the financial year end of 30th September 2019 are as follows.

| | | |
|---|---------|-----------------|
| Revenue | RM | RM |
| | | 604,900 |
| Less: | | |
| • Revenue expenses | 310,000 | |
| • Allowance for doubtful debts | 2,700 | |
| • Bad debts written off | 2,100 | |
| • Depreciation | 12,000 | |
| • Refreshments for clients who came to the premise | 3,600 | |
| • Salaries for partners | 216,000 | |
| • Interest on bank loan | 36,000 | |
| • Interest on partners' capital contributions | 20,000 | |
| • Renovation of office space | 45,800 | |
| • Medical insurance premium for Bryan | 3,500 | |
| • Mobile phone bills for Ashok | 2,400 | |
| • Donations to approved charitable institutions in cash | 1,300 | (655,400) |
| Net profit before tax | | <u>(50,500)</u> |

The partnership was eligible to claim a capital allowance of RM7,600 for the Year of Assessment (YA) 2019. It also had a balance of unutilised capital allowance from YA2018 amounting to RM980.

Required:

- i. Calculate the provisional adjusted income and divisible income of the partnership for YA2019.
(6 marks)
 - ii. Calculate the total income of each partner for YA2019.
(14 marks)
- (Total: 20 marks)

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APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

1. Income tax rates for resident individuals for the Year of Assessment (YA) 2019.

| Chargeable Income (RM) | Calculations (RM) | Tax Rate % | Tax Payable (RM) |
|-------------------------------|--------------------------|-------------------|-------------------------|
| 0 - 5,000 | On the first 2,500 | 0 | 0 |
| | Next 2,500 | 0 | 0 |
| 5,000 – 10,000 | On the first 5,000 | 1 | 0 |
| | Next 5,000 | | 50 |
| 10,000 - 20,000 | On the first 10,000 | 1 | 50 |
| | Next 10,000 | | 100 |
| 20,000 - 35,000 | On the first 20,000 | 3 | 150 |
| | Next 15,000 | | 450 |
| 35,000 - 50,000 | On the first 35,000 | 8 | 600 |
| | Next 15,000 | | 1,200 |
| 50,000 - 70,000 | On the first 50,000 | 14 | 1,800 |
| | Next 20,000 | | 2,800 |
| 70,000 - 100,000 | On the first 70,000 | 21 | 4,600 |
| | Next 30,000 | | 6,300 |
| 100,000 - 150,000 | On the first 100,000 | 24 | 10,900 |
| | Next 50,000 | | 12,000 |
| 150,000 - 250,000 | On the first 150,000 | 24 | 22,900 |
| | Next 100,000 | | 24,000 |
| 250,000 - 400,000 | On the first 250,000 | 24.5 | 46,900 |
| | Next 150,000 | | 36,750 |
| 400,000 - 600,000 | On the first 400,000 | 25 | 83,650 |
| | Next 200,000 | | 50,000 |
| 600,000 – 1,000,000 | On the first 600,000 | 26 | 133,650 |
| | Next 400,000 | | 104,000 |
| Exceeding 1,000,000 | On the first 1,000,000 | 28 | 237,650 |
| | Next ringgit | | |

Continued

2. Reliefs for the Year of Assessment (YA) 2019.

| | RM |
|--|------------------|
| Personal relief | 9,000 |
| Disabled taxpayer (additional relief) | 6,000 |
| Spouse relief | 4,000 |
| Disabled spouse relief (additional relief) | 3,500 |
| Medical expenses for parents | 5,000 |
| Parental care | 1,500 per parent |
| Medical expenses for serious diseases (including medical examination expenses up to RM500) | 6,000 |
| Basic supporting equipment for disabled taxpayer, spouse, children, or parents | 6,000 |
| Child relief (below 18 years old) | |
| - Each | 2,000 |
| - Disabled | 6,000 |
| Child relief (over 18 years old and studying in higher learning institutions) | |
| - Each | 8,000 |
| - Disabled | 14,000 |
| Amount deposited into SSPN for child | 8,000 |
| Premium on deferred annuity contract and private retirement scheme | 3,000 |
| Employee contribution to Employees' Provident Fund (EPF) or approved provident fund | 4,000 |
| Premium on life insurance | |
| - Public servants under pension scheme | 7,000 |
| - Others | 3,000 |
| Premium on medical/education insurance | 3,000 |
| Employee's contribution to SOCSO scheme | 250 |
| Education fees paid by taxpayer for his own self-improvement | 7,000 |
| Lifestyle expenses | 2,500 |
| Breastfeeding equipment | 1,000 |
| Fees paid to childcare centre and kindergarten | 1,000 |

3. Rebates for the Year of Assessment (YA) 2019.

| | RM |
|---|-----------|
| Chargeable income not exceeding RM35,000 | |
| - Individual | 400 |
| - Additional relief when spouse relief is claimed | 400 |

Continued

4. Values of benefits-in-kind.

a. Car and fuel benefits

| Cost of car (when new) (RM) | Prescribed annual value of private usage of car (RM) | Fuel per annum (RM) |
|--------------------------------|--|------------------------|
| Up to 50,000 | 1,200 | 600 |
| 50,001 – 75,000 | 2,400 | 900 |
| 75,001 – 100,000 | 3,600 | 1,200 |
| 100,001 – 150,000 | 5,000 | 1,500 |
| 150,001 – 200,000 | 7,000 | 1,800 |
| 200,001 – 250,000 | 9,000 | 2,100 |
| 250,001 – 350,000 | 15,000 | 2,400 |
| 350,001 – 500,000 | 21,250 | 2,700 |
| 500,001 and above | 25,000 | 3,000 |

The value of car benefit equal to half of the above prescribed annual value is taken if the car provided is more than five years old, but the value of the fuel provided remains unchanged.

Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600.

b. Household furnishing, equipment, and appliances

| Types of benefit | Annual value of benefit (RM) |
|--|---------------------------------|
| a. Semi-furnished with furniture in the lounge, dining room, or bedrooms. | 840 |
| b. Semi-furnished with furniture as in (a) above and one or more of the following: air-conditioners, curtains and carpets. | 1,680 |
| c. Fully-furnished with furniture as in (a) and (b) above and one or more of the following: kitchen equipment, crockery, utensils, and appliances. | 3,360 |

c. Provision of the following benefits by employer

| | |
|-------------------|-------------------|
| Gardeners | RM3,600 per annum |
| Domestic servants | RM4,800 per annum |
| Guard | RM4,800 per annum |

Continued

5. Capital and industrial building allowances

| Types of asset | Initial allowance rate (%) | Annual allowance rate (%) |
|---|-----------------------------------|----------------------------------|
| Motor vehicles and heavy machinery | 20 | 20 |
| General plant and machinery | 20 | 14 |
| Office equipment, furniture and fittings, others | 20 | 10 |
| Computers, information technology equipment and computer software | 20 | 40 |
| Industrial building | 10 | 3 |

End of Paper.